

A Work Project, presented as part of the requirements for the Award of a Master Degree in Management from the NOVA – School of Business and Economics.

## INTERLUSA & THE FAMILY PROTOCOL

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26<sup>th</sup> of May, 2017

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*The following Work Project will provide a background of the Müller Family, introducing the family business Interlusa and its current state. The academia unveils scarce odds for the survival of the family business past the third generation. Bound to avoid that outcome, the family protocol is one of the keystones to sustain the family's and company's success. The Müller Family protocol, conceived under alternative practices than the ones suggested by consulting firms and the literature review, will be analyzed. Its discussion with the third generation family members will be presented, followed by the due diagnosis and recommendations.*

Keywords: Family Business; Family Constitution; Family Charter; Family Protocol.

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## Part 1: Introduction to the Family and the Business

Manfred Horst Müller (1936 - 2002), born and raised in Hamburg, moved to Portugal searching for a better life after the Second World War. As his legacy, he left his family and his business in Porto.

The **Müller Family**, is constituted today by the patriarch's wife, four children and twelve grandchildren, as depicted in the genogram below.

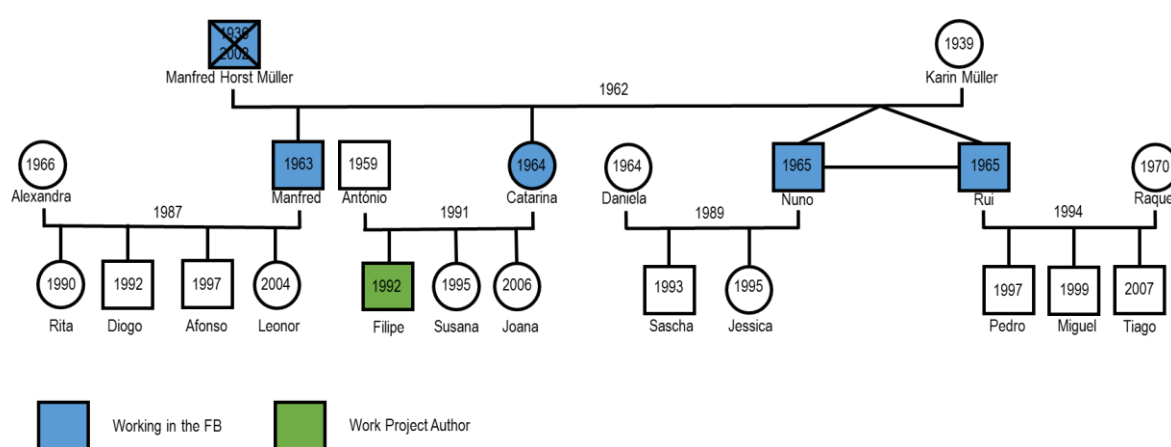


Figure 1 – Genogram

The business that took diversification as a survival strategy in the beginning, demanded full dedication from all the four siblings to stay afloat.

Today, **Interlusa** is a family business ran by the four siblings, dedicated to the import and wholesale of metals, lighting components and fixtures. Alongside the domestic market, **Interlusa** targets the Spanish market and more recently the Portuguese speaking African countries. It relies on the work and effort of more than 40 employees, 3 warehouses and 2000m<sup>2</sup> of showroom at the facilities in Porto.

The family business has 2.5 M€ shareholder equity and an annual turnover of 12 M€. The ownership structure is defined by a sibling's partnership of four, as the only shareholders. The

three brothers work full-time and occupy executive positions with distinctive operational functions, while the sister works part-time on an administrative position related to the accounting and financial aspects of the business. All four lead the company together.

## Part 2: The Transition Phase

*Interlusa* is entering the first steps of a big transition phase, in which members of the **third generation** are expected to start working for the business in the near future. Thus, in the long-run the ownership structure might move from a four-sibling partnership to a cousin consortium. In the first five years of business, 85% of entrepreneurial and family-owned companies in the U.S. disappear, and from the survivors only 30% succeed at transferring it to the second generation. Yet, the family business only survives the transition to the third generation in 12% of the cases, which leaves the successful future of *Interlusa* at very scarce odds, risking to go *from shirtsleeves to shirtsleeves in three generations*<sup>1</sup>.

To fight those odds, the current management team started planning the succession and governance, with the Family Charter as the succession's keystone.

## Part 3: Literature Review

### Family Business

Only in the past twenty to thirty years, has **research** begun to show the due interest for family businesses and their unique characteristics, as this form of enterprise accounts for almost 70% of all businesses around the world and generates an estimate of 70% to 90% of the global GDP annually (Global Data Points of the Family Firm Institute, 2016). As a further example, during

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<sup>1</sup> Due to the scarce odds of family businesses surviving past the third generation, the established "three generations rule" developed into popular proverbs. While the first generation is hard-working and successful, the second generation lives of it and the third generation is bound to start anew.

the decade of the 90's, family businesses in the S&P 500 achieved 53% greater EVA than their management-controlled counterparts, had a 6.5% greater return on assets and created an additional 10% in market value (Journal of Finance, 2003). In the 18 years from 1997 to 2009 a vast index of publicly traded Family firms Western Europe and the U.S. achieved two to three percentage points higher total returns to shareholders than those of the MSCI World and MSCI Europe (McKinsey Quarterly, January 2010).

Family Businesses can on the one hand have a stronger culture, be more reliable, have more committed people and think long term. On the other hand they can be more rigid, inward-looking, unresponsive to changes and sometimes swamped by emotional issues (BDO, 2009).

Inherent to that inner struggle within family-controlled businesses, the **Three-Circle Model** outlines the three overlapping and interdependent subsystems of family, management and ownership. According to this model, a family firm is a dynamic social system which requires reciprocal adjustments among subsystems (Harvard Business School, 2007).

Family Businesses are, in summary, complex entities bound to a mixture of advantages and disadvantages, costs and benefits, strengths and weaknesses. And their **ultimate challenge** is the succession planning, ensuring a smooth transition between generations, while sustaining its success and building an enduring legacy.

## **Family Protocol**

Also known as a constitution or protocol, a family charter is a **family-specific document** bound to help the aforementioned long run goals, by “codify(ing) essential rules, responsibilities, and obligations relating to the ownership and management of the business, as well as set out the values that will guide family members’ conduct in the broader community” (Boston Consulting Group, 2015).

The optional yet paramount family constitution, ideally, establishes the company and family’s mission, vision, values and lays the foundations for the family council and governance. Aimed

at providing clarity, managing expectations, facilitating unity, and promoting ownership, a family constitution is widely regarded as a milestone in a family business' development and evolution. It also proves to be a challenge to family businesses, especially due to its requirements, and willingness to frankly communicate by the elements signed under it.

## **Family Protocol - Outline**

Using the Harvard Business School case “Governance of the Business Family” (2007), the BDO Centre for Family Business / Institute for family Business’ “Family Governance in Multi-Generational Family Business” (2009) and the Boston Consulting Group’s “Use a Charter to Sustain a Family’s Business and Legacy” (2015) as the main sources of information, it will be made clear that the literature review agrees on **a common set of issues** that have to be addressed by the family protocol. The outline of a family charter usually merges these topics and family-specific adaptations.

A family charter is typically set to start with **definitions** on who is considered a member of the business family. The preamble is followed by the family’s core **values and vision** on the family business and how the family business supports the family mission and values. The family constitution then moves to the **organization and governance** of the family in structural terms (e.g. family council) and after that to the **ownership policies**, setting out restrictions and incentives to keep the ownership within the family and rules for the sale and purchase of shares. A further topic in the outline of a family charter is the **succession** and involvement of the family members in the business, delimiting the principles of the succession plan and its rules with employment, compensation, promotion and retirement policies. The family constitution promotes family cohesion and unity, by addressing the **philanthropic and joint activities** by the family. Near the end, a section for the **family policies and plans** independent from the family business should be part of the final document, as to clarify the management of shared family resources, among others. Last but not least, the **term of the charter and its review**

**process** have to be discussed and agreed upon, as the charter is supposed to be treated as a “living” document. A family tree or genogram and a **directory** of family members can be added as an appendix.

## **Family Protocol – Best Practices**

Besides the outline, the literature review on family constitutions sheds some light on the most important best practices of the documents. The family protocol is **not a legally binding document**, but more a “gentlemen’s agreement” clarifying roles and expectations of the business family members. For that reason, it should be stated whether there are consequences and if so, which are they. As a family protocol is a family-tailored document, the length of the process, the change it will promote and the concept of fairness will vary depending of the family (Family Legacy Asia, 2010).

The recent research agrees that as important as the final family constitution is also the “**iterative and open process**” to foster clarity and unity within the family over the policies established (Boston Consulting Group, 2015). On the opposite side, a one-sided design of the family constitution may go against the purposes of the family charter itself.

At *Interlusa*, the process was **not** as suggested by the academia. This will be discussed later on, following the consulting firms project proposals on the designing of a family charter.

## **Part 4: Consulting Firms’ Project Proposals on designing a Family Protocol**

Aiming to understand the process of developing a family protocol, Nuno Müller, as well as the author, were advised by the “Associação de Empresas Familiares” (Portuguese Family Businesses) which specialized consulting firms to contact and how to proceed.



Four of the leading family business-related consulting companies, which will not be named for confidentiality reasons<sup>2</sup>, provided information on the **project proposals** for *Interlusa*. The following table shows the estimated costs and timeframe from company A through D:

Table 1: Consulting firms' price and duration proposals for the development of a Family protocol.

	A	B	C	D
Cost	16.500€	17.500€	21.175€	19.500€
Time	5 months	2 months	7 months	8 months

The projects were organized in similar phases across consulting company.

**Company A**'s written proposal starts by understanding the needs of the Müller Family and sets the objectives of assuring the continuity of the family enterprise and developing a set of common rules and agreements between the family and the business. In order to do this, company A suggests a first phase of individual and group meetings aiming to define the commitment of the family members, with each meeting taking up to two hours. A second phase of four meetings per second generation member would then provide information on the expectations of the second generations and only in the third phase would a meeting on shared and managed expectations take place. The document would then be written and legal advice encourage in a subsequent action. The written proposal also states the consultants involved, the duration and the costs associated.

The written proposal of **Company B** focuses on individual conversations with the second generation's members in the first phase and moves then to the designing of a script for eventual problems and solutions to be discussed in joint meetings. The third phase would be the

<sup>2</sup> Disclosure upon request during the Work Project defense presentation.

elaboration, explanation and revision of the family protocol and other documents. The duration and price are also mentioned, like stated in the *table 1* above.

Following a very similar proposal to Company A, **Company C**'s project focuses on seven objectives: the well-functioning of the governance structures, the designing of the set of rules and norms and the transactions of shares, the regulation of the dividend's distribution, the planning of the transference of property, the control of property and finally to gather all of the information in a family protocol. The work is planned to start with a diagnosis phase, followed by a consensus over the criteria discussed. The family protocol would then be written, to later on be provided legal support. The proposal discloses the costs and the duration of the whole project and assures confidentiality.

Finally, **Company D** divides the project into three phases: the diagnosis, the consensus and the redaction. The phases take approximately three months, each. The project is bound to the same objectives as Company A's proposal and has an overall more informative purpose, as it defines and explains the mission and purpose of a family protocol and all the associated terms. It appeals the direct intervention with two hour meetings of all family members older than eighteen years old in the first phase, and a second round of individual and group interviews in the second phase, before the drafting in the third phase. The proposal introduces the consultants assigned to the project and the price and duration bound with the proposal.

Apart from Company B, a **very expensive and time-consuming diagnosis phase through several meetings** is common to all the consulting firms' proposals. Although the project's prices are similar throughout the four proposals, the duration of the project suffers considerable variations, directly related to the aforementioned diagnosis phase of fully understanding the family situation.

As, according to Nuno Müller's opinion, the Müller Family's current situation did not require such a time-consuming and expensive evaluation, the co-owner-manager decided to skip the

family diagnosis and use the knowledge gathered to design the family protocol himself, as explained later in Part 6 of this Work Project.

## **Part 5: Third-Generation Members' Sessions**

Keeping in mind the aforementioned notions, *Interlusa* did not follow the best practices when developing the family charter, as it was not an “iterative and dynamic” process. In order to recreate those steps, mitigate information asymmetries and be able to approach the diagnosis of the protocol, as well as set out recommendations for improvement, an **informative/interview session** was designed. For effective research purposes, one third-generation member per family branch was chosen to participate in the individual session. Diogo (25), Susana (21), Sascha (24) and Pedro (20) were interviewed.

### **Sessions' Outline**

These sessions took on average 1 hour and 30 minutes per interviewee and had a very specific set of goals, outlined within **five different phases**:

- Phase 1: Explanation of the context of a Family Business.

In the first phase of the interview, the unique characteristics of a family business were introduced based on some research facts, culminating on the *three-generations-rule* associated with the family businesses.

- Phase 2: Introduction of the concept of Family Charter.

A standard family protocol was then presented as one of the best practices to fight the scarce odds of successful succession. Both phase 1 and phase 2 mirror the third part (on the literature review) of this Work Project.

- Phase 3: Conduction of the Questions Set.

At this stage, the interviewee was aware of the context of the session and was asked to answer a set of detailed questions asked by consulting firms when designing the protocol. The questions covered the topics of family mission, ownership, compensation, employment, career opportunity and leadership.<sup>3</sup>

- Phase 4: Review of the Müller Family Charter.

The Müller Family charter was presented to the third-generation family members, including the protocol's author's view, while addressing the above mentioned questions' answers.

- Phase 5: Discussion about the Feedback.

The fifth and last phase consisted on a feedback round on the discussion that arose naturally and on three specific questions, which the interviewee was asked to elaborate:

1. “Do you feel you should have been involved in the process of designing the family charter?”
2. “Would you like to work at *Interlusa* one day?”
3. “Did you like this session?”

## Sessions' Results & Analysis

During the first two phases, which are bound to introduce the theme of family business and the family protocol, all four cousins' attention was caught as soon as they realized they were all part of *the cursed generation*.

When answering the questions, Diogo and Sascha did provide more technical and detailed answers, unlike Pedro and Susana, mainly due to the younger age and less work experience.

The first set of questions, on **family mission and long-term goals**, proved that all the interviewed cousins shared a similar view over the family business. According to all four, the business is to be kept in the family, until last resort, as the continuation of the family enterprise

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<sup>3</sup> The set of questions defined by the Family Business Resource Center is to be found in the appendix.

is of utmost importance. From the top of their mind, the two older cousins see a more expansion-based long-term business strategy rather than an entrepreneurial one. Both see in *Interlusa* the outdated use or record of some processes and believe that technological improvements can be considered a goal in the future. The family values that the cousins expect the company to show are respect, honesty, cooperation and motivation. Three of the four interviewees admitted feeling an intense emotional bond to the family business and all of them expected the emotional value to be a major advantage for the future. This ties in with the family business literature's **stewardship theory**, which states that family members that own the business have the responsibility to take care of it – sustainably – so that the next generation can manage a business that is healthy and strong.

The **share ownership** questions required far more technical answers and even Diogo and Sascha felt uncomfortable answering them. As *Interlusa* does not use share control with voting and non-voting differentiation, hypothetical scenarios were teased, in which active members were given voting shares and passive members non-voting shares. These scenarios led to deep theoretical discussions, proving the power of a family protocol. Furthermore, contrary to the other interviewees, Sascha validated the possibility of shares being given to key non-family members, justifying it with the purpose of motivation. The regulation of transfer of shares was not discussed and was left for the next phase of the session.

All four cousins immediately hinted at the literature best-practice's **meritocracy over nepotism**, when discussing the **compensation** themed questions, as they believed the compensation to be directly related to the contribution to the business, assuming measurable units. Nevertheless, Diogo highlighted the importance of all cousins being given the same opportunities. All of them discarded the remuneration to be below the market rate, placing it somewhere between the market rate and above, directly dependent on the state of the business.

Common to the branch-representatives for this interview, was the understanding of the **employment** in the business not being a birthright, but a privilege. Besides, Pedro pointed out to the trust the second generation has in all the cousins. The policies regarding joining the business were the ones within the family protocol, better known by all four cousins. Sascha confessed he did not agree with the posing of some restrictions and was relieved, when more open criteria were also unveiled, as will be analyzed in the next part. Traces of a specific nature of commitment were shown, namely the **‘affective’ commitment**, where a family member wants to take part in the business and help make it a success.

In a wide consensus, the interviewees agreed that **career opportunity** should be made available to all family members with ability and commitment, and furthermore that family members who do not meet employment criteria should be provided alternatives.

Diogo, Susana and Pedro see the **leadership** to be taken by future family members, a common behavior explained by the **socioemotional wealth preservation**<sup>4</sup> concept, emotionally binding the family members to the family company. Yet Sascha alerted to less-desirable future scenarios, where the leader might not be a family member. According to Susana and Pedro, the future leader has to be someone with strong communication skills and family-consciousness. The more business-related characteristics were appealed by the two older cousins, mentioning hard-work, motivation, courage, readiness to assume mistakes and the ability to listen and await a well-thought through reaction.

### **Tie-in with the Müller Family Charter**

According to the literature review presented in the third part of this Work Project, a well-designed family charter is supposed to address all the set of questions posed in the interviews. After the interviews, in the fourth phase of the prepared session, the four cousins were

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<sup>4</sup> Following the *total value = financial value + socioemotional value* theory from Gomez-Mejia, 2010.

introduced the family protocol and guided through the document along the set of questions previously asked. All the doubts that had arisen were addressed and positive discussions emerged, leading to enthusiasm-driven deviation from the estimated session's duration.

The amount of time per set of questions is an indicator of the level of detailed expected from the family protocol in that area. The **family mission** and the **employment** question sections were both discussed intensively, alluding to the approaching transition phase.

These sessions combined the tasks of (i) **informing and involving** the third generation members and (ii) **test** if and in what detail the existing protocol answers all the questions arisen from the literature review. The first task proved to be successfully checked, yet the second one is to be discussed in the sixth part of the Work Project.

## **Feedback Round**

While Susana and Diogo would have liked to have been **involved in the process of designing the family charter**, Pedro and Sascha did not. On the surface, these seem like two completely distinct opinions, but when assessing the reasoning behind their answers with deeper-reaching questions, they culminated in the following. First of all, none of them felt knowledgeable enough to contribute to the designing of the protocol. Secondly, all of them had full trust and confidence in the work of any of the second-generation members to develop the family charter. It turns out, all of them would have liked to be informed about the family protocol, but none of them felt the need to contribute to the development of the document – a misunderstanding caused by a possibly badly formulated question.

All four cousins did not hesitate in answering that they would **like to work for *Interlusa*** one day, diverging in whether it would be soon or later in the future.

The representatives for the four family branches knew of the existence of a family protocol, but only Sascha had skipped through it. The third-generation members had a vague idea on the purpose of the protocol, but unanimously agreed that both the informative, as well as the

interview part of the session were very **interesting**, bringing them closer to the family business. The long sessions provided the cousins with a detailed view on the family charter and allowed them to retain more than the gist of the document. The suggestion of doing an informative family event to introduce the family protocol was approved by all four cousins and will be thought-through in the last part of this Work Project.

## **Part 6: Analysis of the Müller Family Protocol**

Although academia highlights the process of developing a Family Charter as important as the final outcome, the Müller Family protocol did not follow that process.

### **Protocol's Creation**

Nuno Müller, who understood the importance of a family charter in a successful succession, took the task of doing research on family protocols, searching for advice at consulting firms and gathered as much information as he could on how to develop such a document. Furthermore, he had at his disposal a family charter of a work acquaintance of his. For two reasons, Nuno believed that he could do the work himself. Firstly, the price asked by family business specialized consultants was too high, in his opinion, ranging from 16 500 to 21 175€. And secondly, because due to the family's nature, unity and closeness, he was in a better position himself in terms of knowledge on the family's intentions to outline the needs. Committed to provide the best document possible to sustain the family's legacy and ensure a smooth transition, **he developed the Müller Family protocol.**

The Müller Family Protocol took approximately two years to be created, gaining its shape with all the various inputs that Nuno was provided with during his long research. During these two years, Nuno kept his siblings updated on the progresses done on the family protocol, as he also validated most of the steps taken with them. The four owner-managers signed the 37-page long protocol on the 25<sup>th</sup> of January 2016.



## Protocol's Author's Perspective on the Protocol

Nuno Müller describes the family business as a shared and well-functioning tool to provide **well-being** to the Müller Family, as this is of utmost importance. The family is to be placed first at all times. The family protocol serves its purpose at fostering family unity, keeping the business in the family and promoting family values, such as responsibility, honesty, motivation and dedication.

## Protocol's Summary & Analysis

After the index, the “Protocolo Familiar da Família Manfred Horst Müller” family charter, starts by **defining** as family members all direct descendants of Manfred Horst Müller, naming every single family member from the first to the third generation, comprising a total of eighteen people. Both the real estate agency *Müller Imobiliária*, which will not be dealt with in this Work Project, for it is not relevant for the outcome of this work, and the already introduced company *Interlusa* are defined as property of the family.

The second chapter of the family protocol states the **mission and values** of the family and the purpose of the document. This chapter presents the family charter as not only as a problem-solver but also as a problem-avoiding mechanism, focusing on the well-being of the family. The family protocol promotes the good relationship between the family members, bound to the respective obligations and duties. It sets as the main objective, the criteria-based well-functioning organizational structure to avoid personal conflicts. It asks for consensual solutions and responsibility of every member and fosters the dedication and hard-work in the company, serving as a role model to all employees.

These two first chapters follow strictly the suggested outline by the literature review and are in harmony with the third-generation's view on the family values.

The **governance structures** are introduced in the third chapter of the existing family charter, following the scheme:

The Müller Family creates a family council to deliberate in a general assembly over the board of directors of the companies. The companies choose the respective management teams.

This scheme is bound to help differentiating family and business matters, but always with the focus on the family. The family council is also called to intervene in business matters with high impact on the family. The four siblings constitute the general assembly, the family council, as well as the board of directors, fully aware that this might shift in the future. The participation of the matriarch, Karin Müller, in the family council is not compulsory and can be decided upon on each meeting, by the matriarch herself.

Within this third chapter, the principles, the documentation and the duties of the **board of directors** are introduced. The board is expected to foster the family unity and on the one hand to appeal the debate and discussion, while on the other hand to provide support independently on the decision taken, always using communication as a problem-solving tool. The strategy of the company and contribution of the members should be discussed at least once a year and the continuous training of the family members nourished. Furthermore the board of directors is responsible for the creation of an internal regulation, dealing with the organizational aspects of the board, provided in the ninth chapter of the family protocol. The board's **duties** account for the confirmation of the management team, the nomination of the advisors, the approval of the investments to be then presented to the family council, discuss the results and evaluations of the members, propose the exit terms for family members to the family council, and finally develop a strategic plan for the family business group.

The fourth chapter deals with the **family council** – the highest decision making body, set to discuss high impact business matters. Some issues of the board of directors are escalated and dealt with within the family council as stated above. Furthermore, the family council maintains the family charter and decides upon the entry and exit of family members in the company. It fosters the communication within all the organizational bodies.

Both the third and fourth chapter are in full accordance with the literature review, keeping a very standard format. As the four second-generation owner-managers comprise all of the organizational bodies, the family charter only lays out the theoretical foundations for the future. The **ownership** aspects are all dealt with in the fifth chapter, with the underlying definition, that it is the will of the family to keep the shares, and all rights and duties they come with, within the family. Keeping that in mind, the shares transactions among living members are to be made according to a preferential method, meaning that first the siblings, then cousins, then company and only lastly a third party is allowed the purchase of shares. The free transmission of shares or caused by death, follow the same principle once the receiver is not a family member, and forced shares transactions are prohibited, unless under judicial environment. In order to assure the shares to be kept in the family, the members are expected to have their will in written form and the third generation members to marry under the separation of property. The price of the shares is determined by the average of the evaluations performed by two independent specialist firms. The financing of the transaction are also defined in this chapters with the family council deciding over possible loans, with some of the reasons defined in the protocol. The last two points within the fifth chapter concern the annual dividends, which are only to be distributed after all legal requirements are dealt with and if the financial situation of the company allows, and a financial guarantee for the first and second generation as a reward for their effort.

Although this fifth chapter has several family-business-protective details, such as the strict pre-emption right, they are not legally binding, weakening this section.

The **work principles** and ethic expected from the family members is exposed in the sixth chapter. As an introduction to the chapter, it is clearly stated in the family protocol, the utmost importance of the work exclusivity for the company, in the name of the company and not of the individual. All the gains and losses will be carried by all members equally. This stands out as

one of the most personal passages of the protocol, stepping away from the standard layout into the family-specific traces. The chapter starts by defining the circumstances in which a family member is allowed to join the family business, decided by the family council. If there is a position to be filled, the member is required to have a bachelor degree, speak fluently English, have three years' work experience in a company not related to the family and having signed the family protocol, in order to join the family business, without differentiation for any family branch. Other criteria such as business relevant PHDs or MBAs and life experience will be positively evaluated. The joining member will be given a professional development plan, the respective phases will be planned and he/she is expected to comply with the values bound to the protocol. The remuneration will be set by the family council following the company's criteria, the market rate and the member's characteristics. Expecting more from a family member than other employees, the remuneration might also be above the market rate. The family protocol fosters meritocracy over nepotism. This chapter also states that the evaluation of the third generation's members will be set by the family council according to the criteria set by that body, too. In case of a member not being suitable for the company, the exit conditions and support by the family and company are also defined in this chapter, allowing a six months re-evaluation period followed by another three to six months salary-supported period, helping the job hunt. The family protocol does not allow in-laws to work in the Family Business. At the age of sixty-five, a mandatory "retirement" is set, with prolongation possibility to be decided by the board of directors in accordance with the family council until seventy-five.

The extensive detail in this part, indirectly allude to the current situation of the family business, namely the transition phase with the entry of the third generation members in the business. The sixth chapter is in line with the expectation of the interviewed family members, asking for high moral and educational standards.

The seventh chapter is a listing of the **rights and duties of the shareholders**, concerning the strict confidentiality of information, the prohibited use of the brand and commercial name, the providing of services by a family member's firm at market rates and the exclusivity agreement. The **general rules** of the protocol are established in the eight chapter and allow changes to the protocol if all the signatories are in agreement to the proposal. Every two years, the family protocol is supposed to be revised. The protocol is exclusive to the family and rules over conflicting opinions, except legal obligations, to which the protocol is also undermined. These two chapters follow standard necessary procedures and frameworks, serving as pillars for the family-specific content-rich sections to be fully integrated. The ninth and tenth chapters are referent to the **internal regulations of the board of directors and family council**, respectively, to ensure the above-mentioned objectives. These chapters define the standard structure, organizational needs and duties, as in third and fourth chapters. The eleventh and final chapter gathers the **signatures** of all the family members. Currently, only the members of the second generation signed the protocol.

## **Part 7: Recommendations**

In order to comprise the information and discuss the various results that lead up to this recommendations section, the thematic of the family protocol as a whole, will be divided into (i) the family protocol **document** itself and the (ii) **process** of development.

### **The Document**

Aiming to prove that the family protocol was a thoroughly developed **document**, Nuno Müller did also answer the question set of this Work Project's part 5. As not only the Müller Family protocol's outline matches the literature review suggestion, but also all the question themes from the questionnaire were answered by the protocol, the family protocol proves to be a clear, concise and complete family charter, according to the research made.

As the consulting firms' proposals also suggested as the next step, it is **recommended** for *Interlusa* to seek legal advice in order to adapt the company's statutes and by-laws to the family protocol. The goal is to make the family protocol a legally binding document. Although this would be beneficial for the ownership chapter, for instance, the clause requiring the third generation's members to marry under separation of property would never be legally enforced, as this would be a direct infringement to every person's rights. A guided legal counseling would be the next pro-active measure to increase the odds of a smooth and successful transition.

## **The Process**

The Müller Family protocol lacked an iterative and open **process** with the involvement of the whole family. This Work Project's interview sessions integrating third generation members helped assessing the need of mitigating information asymmetries and recreating the process of development. In line with the conclusions taken from the session's feedback, it is highly **recommended** for the Müller Family to gather all its family members and participate in a presentation on the family protocol, following a similar interview session outline at a larger scale. With the expertise of the Work Project's author gained through the literature research and individual sessions, conducting the iterative presentation side-by-side with the family protocol's author Nuno Müller, would foster communication, promote the involvement of everybody and inspire confidence and openness. This would be the recreation of the process of developing the family protocol, as the interview sessions proved to be.

This recommendation came to life with the approval of Nuno Müller. The above-mentioned session will take place on a family weekend on 9<sup>th</sup> and 10<sup>th</sup> of September 2017, organized every year by the matriarch, Karin Müller, fostering family union.

As this year is coincidentally the 50<sup>th</sup> anniversary of *Interlusa*, the family reunion and family protocol presentation will be **celebrated** as the first step into the future of, not a *cursed*, but a *blessed* generation.

## Appendix: Images



*Figure 2 - Interlusa*



*Figure 3 - The second Generation (2015)*



*Figure 4 - The third Generation (2015)*



## Appendix: Family Business Resource Center - Questionnaire

### **Family mission and long-term goals:**

- How important is continuation of the family enterprise?
- What is the current and future management philosophy?
- What are the short-term and long-term objectives of the family?
- What does the family plan to do with the enterprise in the long-term (ie keep it in the family? Sell it?)
- What family values do you want the business to exhibit?

### **Share ownership:**

- What criteria entitle an individual to own voting or non-voting shares in the business?
- In the event of critical milestones such as marriage, birth, death, divorce, or termination of employment are ownership privileges affected?
- Under what conditions, including price and terms, must shares be offered for sale to other shareholders or to the firm?
- What constitutes a fair distribution of assets among family members and what is best for the success of the business?
- Should key non-family employees hold shares?
- What restriction should be placed on sale or transfer of shares?

What type of shares control (e.g. voting) should be made available for family members who are active (i.e. those employed in the firm) in the business versus those who are passive (i.e. those family members who are not employed in the enterprise)?

### **Compensation:**

- Should members be remunerated above, at, or below market rates?
- Should all family members be compensated at the same rate, regardless of their contribution to the business?
- Is there a fair and objective compensation system for family members?
- Are employment perks equitably awarded?
- Should active family business members receive higher dividends than passive members?

### **Employment:**

- What are the policies regarding joining the business? At one end of the spectrum, membership is open regardless of talent or skill levels. At the other end, families specify high entry standards. Whatever the position adopted, it is important to be clear about who can enter, what their qualifications must be, and what it takes to remain in the business.
- How do family members earn their stripes?
- Is employment a birthright or a privilege?
- Under what terms and conditions will a family member be employed (or for that matter be terminated from active work in the business)?
- Who makes the employment decision when family members join or are asked to leave the business?
- Should family members obtain experience outside of the firm before joining?

### **Career opportunity:**

- Should career opportunities be made available to all family members with ability and commitment?
- Are family members who do not meet employment criteria counselled accordingly? What career opportunities or alternatives are available for these individuals?

### **Leadership:**

- Will future managers come exclusively from the family?
- When will the firm's future managers be selected and by whom?
- What qualities are essential in future leaders of the business?

**Question set** to be found in the Family Business Resource Center by:

Dana, Lucio; Romano, Claudio; Smyrnios, K. 2000. *Family Business Succession Planning: A 10 Step Guide*. Melbourne: Centre for Professional Development.



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